

Strategy: Leverage Additional Private Sector Resources for Housing through a State Tax Credit

Objective: Create strong incentives to invest in affordable rental housing through a state tax credit.

- Proposed state housing tax credits create affordable rental housing, which is in high demand.
- State tax credits attract Minnesota investors to provide an additional source of funding for rental project development.

State Tax Credit—Benefits:

- The federal low income housing tax credit (LIHTC) program has been **extremely successful** in creating incentives for investment in rental housing for **seniors, people with disabilities, working families, and the chronically homeless**. A state tax credit builds upon this success.
- A state credit helps **meet the need for grant or equity capital** to develop rental projects. In the current economy the value of federal tax credits has declined, leaving **funding gaps** in project development budgets.
- A state tax credit program **encourages Minnesota individuals and companies to invest** in their communities. Many of these investors are not eligible for the federal housing tax credits.
- State tax credits generate housing development and jobs quickly, but repayment is made in small installments over time, which makes the program **feasible during difficult economic times**.
- Investing in housing **creates jobs**, increases local property tax bases, provides a significant **return on investment** to the state, and stabilizes communities.

About HALF of the rental housing projects being developed in 2008 in Minnesota utilized the federal low income housing tax credit (LIHTC).

A state tax credit supplements the LIHTC program, a driving force behind production of affordable rental housing nationwide.

State Tax Credit—Nuts & Bolts:

- A state housing tax credit allows the Minnesota Housing Finance Agency to provide tax credits in proportion to development costs. Affordable housing developers market these credits to investors to raise capital.
- Projects must receive federal tax credits or other public financing.
- Projects must meet requirements of the federal Low Income Housing Tax Credit (LIHTC) program or other rental programs of the Minnesota Housing Finance Agency.
- Projects must continue to meet affordability requirements for tenants for 15 years.
- The state tax credit program totals about \$5.5 million annually to meet housing needs.
- Tax credits are issued over a five year period.
- Credits are distributed by Minnesota Housing Finance Agency and local government tax credit suballocators.

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